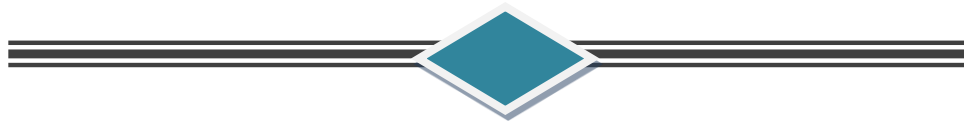
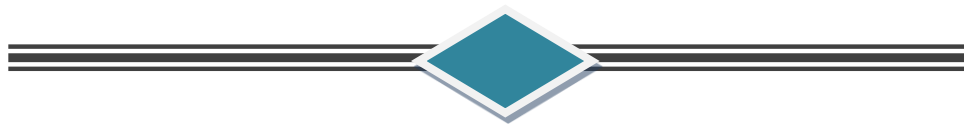


KANSAS STATE EMPLOYEES HEALTH CARE COMMISSION



ANNUAL REPORT



PLAN YEAR
2013

**Kansas State Employees Health Care Commission
2013 Annual Report**

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EXECUTIVE SUMMARY

- Based upon staff projections and the opinion of the State Employee Health Plan (SEHP) actuaries, the SEHP fund should have sufficient funds to pay the health care expenses for a self-funded plan covering approximately 100,000 lives for 2014.
- Active employee open enrollment was held from October 1 through October 31, 2013. Approximately 27,674 employees utilized the online Open Enrollment system for State employees to review their health plan coverage. One hundred fourteen (114) Open Enrollment meetings were held for employees in thirty-five (35) cities and six (6) online Open Enrollment webinars were held. Staff estimates that approximately 6,000 employees attended these meetings.
- For Plan Year (PY) 2013, Plan C the Qualified High Deductible Health Plan (QHDHP) was redesigned and the employer contribution methodology was changed from small monthly contributions to one lump sum contribution to the member's Health Savings Account (HSA). In addition the overall employer HSA contribution amount was increased for single from \$900 to \$1,500 and for a family from \$1,350 to \$2,250 annually. As a result of the plan changes, the enrollment in Plan C increased from 800 contracts in 2012 to over 5,000 for PY 2013. For PY 2014, enrollment in Plan C grew to over 7,500 contracts and now has the second (2nd) highest enrollment of the three (3) plans offered. At the State's request, the Health Care Commission changed the HSA contribution from a one-time payment in January into two equal payments. The first half of the HSA contribution is now paid in January and the second half in July.
- Beginning with PY 2013, the maximum employee contribution into a Health Care Flexible Spending Account (FSA) was reduced to \$2,500 annually due to changes in IRS rules that govern these accounts.
- The HCC voted to continue the Autism Spectrum Disorder pilot benefit for PY 2013. In June 2013, the HCC voted to make this a permanent benefit of the SEHP coverage.
- The HCC voted to add coverage to the SEHP for bariatric surgery beginning with PY 2014.
- The SEHP has continued to make enhancements to the enrollment and membership portal used for the Non State groups and Direct Bill members of the SEHP. In PY 2013, the SEHP rolled out the eligibility portion of the web portal for use by Non State employers to enroll new members online as well for making midyear eligibility changes for enrolled members. In addition, new Non State groups joining the SEHP now enroll online for the initial enrollment thus eliminating the need for paper enrollment forms from this population. The new portal provides human resource officers enhanced resources for viewing, tracking, reporting and updating employee records. Both Non State and Direct Bill members utilized the web portal again this year for their annual open enrollment selections.
- Beginning in PY 2014, the enrollment and membership portal will be enhanced to incorporate a billing module that will eliminate the need for the SEHP to contract for a separate third-party billing service. The SEHP will also be moving the active state employee population to the new enrollment and membership portal eliminating the need for paper enrollment and change forms for employees and improving the efficiency of the enrollment process.
- To earn the HealthQuest (HQ) Rewards Program premium incentive discount employees needed to complete a health assessment for 10 credits and earn 10 additional credits by participating in the wellness program by July 31, 2012, in order to qualify for the HQ Rewards premium incentive discount for PY 2013. To earn the discount for PY 2014, employees needed to complete the health assessment questionnaire worth 10 credits and earn an additional 20 credits by participating in health and wellness activities. Over 70 percent of eligible state and non state employees covered under the SEHP earned the discount for PY 2014.

BACKGROUND

The Kansas State Employees Health Care Commission (HCC) was created by the 1984 Legislature through the enactment of K.S.A. 75-6501 et seq. to “develop and provide for the implementation and administration of a state health care benefits program. . . . [It] may provide benefits for persons qualified to participate in the program for hospitalization, medical services, surgical services, nonmedical remedial care and treatment rendered in accordance with a religious method of healing and other health services.” Under K.S.A. 75-6504(b), the HCC is authorized to “negotiate and enter into contracts with qualified insurers, health maintenance organizations and other contracting parties for the purpose of establishing the state health care benefits program.”

The HCC is composed of five (5) members and met five (5) times during 2013. The Secretary of Administration and the Commissioner of Insurance serve as members of the HCC as mandated by statute, while the Governor appoints the other three members. K.S.A. 75-6502 requires one member to be a representative of the general public, one member to be a current state employee in the classified service, and one member to be a retired state employee from the classified service. During 2013, Mark McGivern, Acting Secretary of Administration, served as the Health Care Commission chair from January through July. Jim Clark was appointed Secretary of Administration in August and is now serving as the Health Care Commission chair. Nancy Ruoff served as the Governor’s active employee from classified service through March 2013. The Governor’s Office is working to fill this appointment. The 2013 HCC members were:

Mark McGivern, Acting Secretary of Administration (through July 2013)
Jim Clark, Chair and Secretary of Administration (beginning August 2013)
J. Scott Day, representative from the general public
Steve Dechant, retired employee from the classified service
Sandy Praeger, Commissioner of Insurance
Nancy Ruoff, active employee from the classified service (through March 2013)

An Employee Advisory Committee (EAC) assists the HCC. It is composed of 21 members, 18 of whom are active employees and 3 who participate through Direct Bill. Members are selected on the basis of geographic location, agency, gender, age, and plan participation in order to ensure a balanced membership representing a broad range of employee and Direct Bill member interests. Each member serves a three (3) year term. (See Exhibit A.) The EAC met three (3) times during 2013.

Effective July 1, 2011, the staff that administer the State Employee Health Plan (SEHP) became part of the Division of Health Care Finance within the Kansas Department of Health and Environment (KDHE). The Director of the State Employee Health Benefits Program (SEHBP) reports to the Director of the Division of Health Care Finance. The SEHP is responsible for bringing recommendations to the HCC and with carrying out the operation of the SEHP according to HCC policy. SEHP staff prepared this report. Aon Consulting provides the actuarial and consulting services for the health plan.

I. SUMMARY OF CHANGES AND OTHER ACTIVITIES IN PLAN YEAR 2013

This section provides a summary of improvements, changes, and other activities in the State Employee Health Plan (SEHP) that occurred or took effect in Plan Year (PY) 2013 (i.e., calendar year 2013). The summary includes a record of the HCC's contracting activities during the year and an overview of the enrollment trends during 2013. As a package, there were minimal changes in the benefits offered in 2013 with specific changes highlighted below. Enhancements to the HealthQuest program are highlighted separately in Section III of this report. The impact of these plan changes on SEHP finances in 2013 and in future years is summarized in Section IV.

HEALTH PLAN ADMINISTRATION

Beginning with Plan Year (PY) 2008, the SEHP self-insures all of the active employee medical products. PY 2013 represents the sixth full plan year of self-funding all the health plans. This was the second year of the HCC's three-year contract with each vendor for administrative services. The following vendors provided administrative and network services for the SEHP in 2013:

- Blue Cross and Blue Shield of Kansas (Plan A, Plan B and Plan C)
- Coventry/PHS (Plan A, Plan B and Plan C)
- UnitedHealthcare Company (Plan A, Plan B and Plan C)

The SEHP has continued to make enhancements to the enrollment and membership portal used for the Non State groups and Direct Bill members of the SEHP. In PY 2013, the SEHP rolled out the eligibility portion of the web portal for use by Non State employers to enroll new members online as well for making mid-year eligibility changes for enrolled members. In addition, new Non State groups joining the SEHP enroll online for the initial enrollment thus eliminating the need for paper enrollment forms from this population. The new portal provides human resource officers enhanced resources for viewing, tracking, reporting and updating employee records. Both Non State and Direct Bill members utilized the web portal for making their annual open enrollment selections.

HEALTH PLAN DESIGN

The SEHP offered members a choice of three (3) health plan designs available from three (3) vendors. All plans reflected value-based plan designs which emphasize the use of preventive care. Changes made to the SEHP for 2013 centered on modifying the benefits to meet the HCC's benefit objectives. For PY 2013, the HCC expressed a desire to increase enrollment in Plan C, the Qualified High Deductible Health Plan (QHDHP). A survey was sent out to select members and also posted to the website for both members enrolled in Plan C in PY 2012 and those who were enrolled in Plans A or B to provide feedback on why they elected Plan C or why they did not. Based upon the feedback received, the HCC voted to make changes in the benefit design and Health Saving Account funding for PY 2013 to address the concerns expressed. The changes included the following:

- The deductible was increased to \$2,500 for an individual and a maximum of \$5,000 for a family.
- Because of the change in the individual deductible amount, members with member and spouse, member and children or full family coverage no longer have to meet the entire family deductible before any claims are paid. The maximum deductible for any one person is now \$2,500. If others are covered under the plan, their expenses can be pooled for the additional \$2,500 amount with a maximum out-of-pocket for the entire family of \$5,000.
- The State's HSA contribution was increased to \$1,500 for employee only coverage and \$2,250 for employee plus family coverage.
- The timing of the State's HSA contribution was also changed to a one-time deposit which, for most employees, occurred in January 2013.
- Employer HSA contributions for new employees were pro-rated based upon the start date of their coverage.

There were no changes to Plans A or B for PY 2013. Complete plan design and benefit information, as well as the health plan comparison chart are located on the web at: <http://www.kdheks.gov/hcf/sehp/PY2013Info.htm>.

The changes identified above to achieve the goal the HCC had set to improve enrollment in Plan C were successful. The enrollment in Plan C increased from 823 at the start of PY 2012 to 5,218 for PY 2013. The following are the enrollment numbers as of January 2013 for State and Non State active employees:

Vendor	Plan A	Plan B	Plan C	Waived
Blue Cross and Blue Shield of Kansas	34,291	3,094	4,725	
Coventry Health Care of Kansas	1,954	242	369	
UnitedHealthcare	298	64	124	
Waived Coverage				3,504
Total	36,543	3,400	5,218	3,504

Dental Coverage

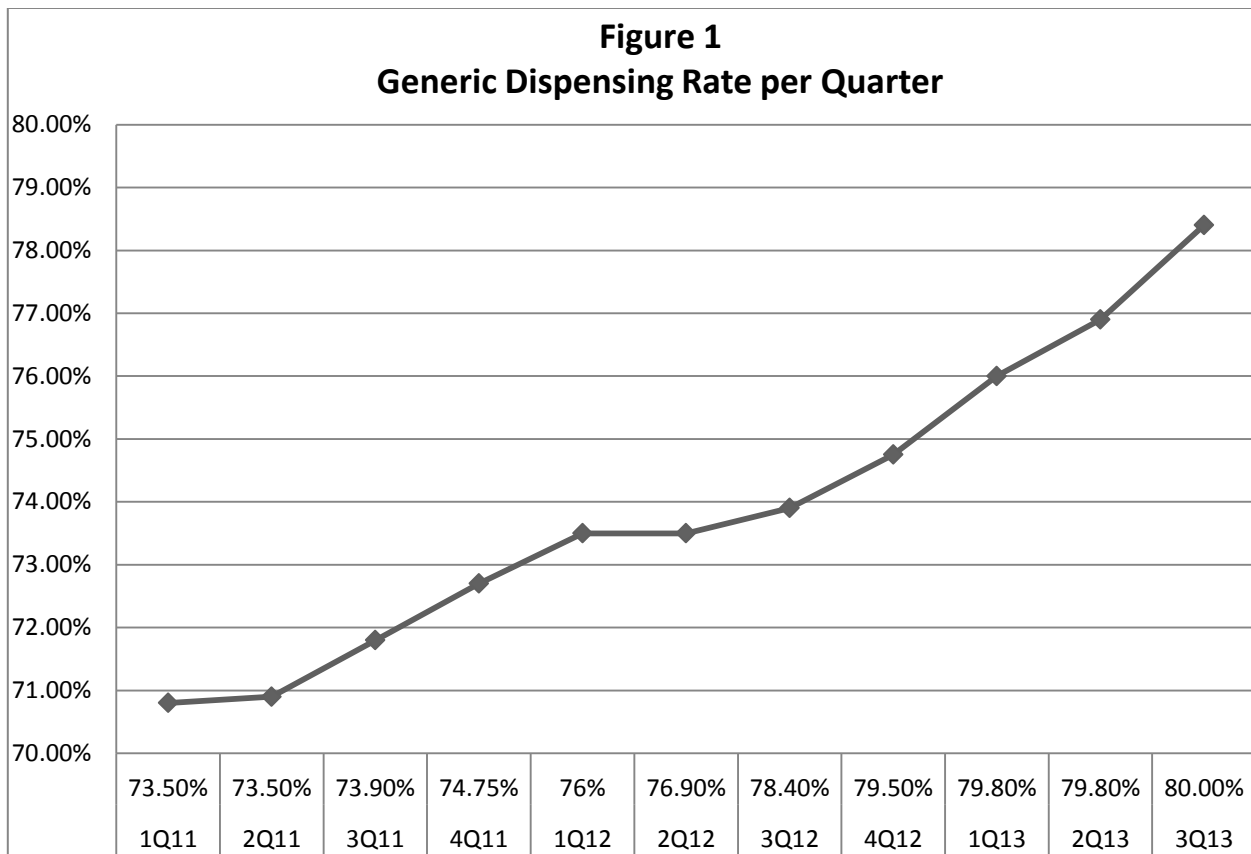
No changes were made in the value-based dental plan design that encourages members to use preventive care services. This plan design has resulted in the plan experiencing a positive trend of increased usage of preventive office visits and cleanings. Members who have their routine exams and cleanings are rewarded with less out-of-pocket cost if they need basic restorative services.

Preferred Lab Services

Members on Plans A and B have the option of using a preferred lab vendor for covered lab services. The SEHP has negotiated discounts with these preferred labs and, as a result, covered charges are paid at 100 percent by the plan. Beginning in 2012, two (2) preferred lab vendors are available to members. Quest Labs continues to be the statewide and nationwide preferred lab vendor. Stormont-Vail Labs is the regional preferred lab vendor. The preferred lab benefit is optional and members have coverage for lab services provided by other lab providers; however, those services are subject to the plan deductible and coinsurance.

Prescription Drug Coverage

The HCC continued its multi-tiered coinsurance plan design for the standard prescription drug plan used for Plans A and B. The standard plan encourages and rewards cost-effective consumer purchasing. Through proactive plan management, increased consumer awareness, and the introduction of several new generic products, the generic dispensing rate increased from 73.5 percent in the first quarter of 2011 to 80 percent for the third quarter of 2013 (see Figure 1).



Medicare Plans

Direct Bill members with Medicare had the option of a fully insured Medicare Part C Advantage plan, or the Blue Cross and Blue Shield Medicare Supplement Plan C insured product, Kansas Senior Plan C. Senior Plan C is available with or without the fully insured SilverScript Medicare Part D prescription drug plan.

Premium billing for the Non State and Direct Bill members is done through a jointly administered contract with Medicaid for third-party billing services. Premium billing for the Medicare Part D Prescription Drug plan was done by SilverScript directly.

Long Term Care Insurance

The SEHP offers a Voluntary Group Long Term Care Insurance Program through Genworth Life Insurance Company. The program is offered to State of Kansas benefits eligible active employees, retired employees, and their family members. The long term care insurance is entirely employee-paid coverage and is not available through payroll deduction.

Section 125 Plan

The SEHP implemented a Section 125 Pre-Tax Premium Option in July 1986. Employees have the option to have their health care premiums deducted from their paycheck using a pre-tax option. This pre-tax deduction reduces the employee's taxable income and reduces the amount of FICA tax owed by the State. Over 97 percent of active employees with group health insurance participate in this option.

The SEHP established Health Care Flexible Spending Accounts (HCFsAs) and Dependent Care Flexible Spending Accounts (DCFsAs) effective February 1, 1991. In 2011, a limited purpose Flexible Spending Account (FSA) program was added for employees enrolled in Plan C. As Plan C has a Health Savings Account (HSA), the limited purpose FSA provides members the ability to set aside money on a pre-tax basis for eligible anticipated out-of-pocket expenses for dental and vision claims.

Voluntary Retirement Incentive Program (VRIP)

In August 2011, the Governor announced a voluntary retirement incentive program (VRIP) for state employees who were retirement eligible. Under the VRIP, employees could select either a cash option or to have their post-retirement SEHP coverage paid for by the State for up to 60 months for member-only coverage or up to 42 months for member-plus-dependent coverage or until the employee reached age 65, whichever comes first. The SEHP continues to work with the Department of Administration to handle the processing of the agency payments for these early retirees.

Dependent Eligibility Audit

The SEHP completed an audit of all dependents covered on the SEHP to validate their eligibility for coverage in 2012. The audit vendor CTI reported it is not uncommon for dependent eligibility audits to return between four (4) percent and eight (8) percent of covered dependents as ineligible for coverage. The SEHP's level of ineligibility was .42 percent which is far less than found in other employer groups. The audit confirmed that the documentation process being used by the SEHP is appropriate.

RE-CONTRACTING FOR HEALTH PLAN VENDORS AND SERVICES

The following Requests for Proposals were released during 2013:

- EVT0002036 to provide administration for the wellness program was released on January 25, 2013, and closed March 20, 2013. Services being requested included administration of the health assessment and biometric screenings, disease management services, wellness activities and a weight management program. A three (3) year contract was awarded to Alere.
- EVT0002059 for Pharmacy Benefit Management (PBM) services was released on February 7, 2013, and closed March 20, 2013. The Pharmacy Benefit Manager will administer the State Employee Health Plan (SEHP) prescription drug program. A three (3) year contract was awarded to CVS Caremark.
- EVT0002118 for the Employee Assistance Program (EAP) was released on February 28, 2013, and closed April 10, 2013. The EAP bid provides employees and their families access to counseling services. A three (3) year contract for EAP services only was awarded to ComPsych.
- EVT0002234 for Onsite Flu Shot Clinic was released on April 4, 2013, and closed on May 3, 2013. The SEHP has offered flu shot clinics for the last several years in areas with large numbers of employees. This RFP allowed us to review the market cost as well as expand the number of onsite flu shot clinics offered to additional locations throughout the state. A contract was awarded to OccuVAX beginning with the 2013 flu season through December 31, 2016.
- EVT0002176 for administration of the Flexible Spending Account (FSA) program was released on March 25, 2013, and closed on April 24, 2013. This included administration of the Health Care FSA, Limited FSA and Dependent Care FSA programs. A three (3) year contract was awarded to NueSynergy.
- EVT0002561 for a fully insured Medicare Part D prescription drug plan was released August 1, 2013 and closed August 26, 2013. A three (3) year contract was awarded to Coventry Health Care of Kansas d/b/a First Health.
- EVT0002662 for web based transparency tools for SEHP members was released on September 17, 2013, and closed on October 21, 2013. Negotiation sessions with bidders have occurred but a final decision on whether to award a contract and to whom has not been made by the HCC.

II. SUMMARY OF CHANGES FOR PLAN YEAR 2014

This section includes a summary of health plan improvements developed and approved in 2013 for implementation in Plan Year (PY) 2014, which began January 1, 2014.

HEALTH PLAN DESIGN

For PY 2014, most of the plan design changes were done to address changes in the legal requirements that govern health plans. The HCC approved two (2) enhancements to coverage for Plans A, B and C. Beginning with PY 2014, the HCC approved adding coverage for bariatric surgery and the pilot benefits for treatment of autism spectrum disorder are now a permanent benefit of the plan. Complete plan design and benefit information, as well as the health plan comparison chart, are located on the web at: <http://www.kdheks.gov/hcf/sehp/default.htm>.

- **Plan A –**
 - An Out of Pocket (OOP) Maximum, which is the member's annual maximum out of pocket financial responsibility for covered services, was added. The member's deductible, coinsurance and copays all accumulate toward the OOP maximum.
 - The copay for urgent care facility visits was changed to a \$50 copay.
 - The annual dollar limit on durable medical equipment was removed.
- **Plan B –**
 - An Out of Pocket (OOP) Maximum, which is the member's annual maximum out of pocket financial responsibility for covered services, was added. The member's deductible, coinsurance and copays all accumulate toward the OOP maximum.
 - The copay for urgent care facility visits was changed to a \$50 copay.
 - The annual dollar limit on durable medical equipment was removed.
- **Plan C –**
 - There were no plan design changes.
 - A change in the timing of the employer's contribution into the employee's HSA was requested and approved by the HCC. The employer contribution will now be done in two (2) equal payments. The first half of the HSA contribution is now paid in January and the second half in July.

OPEN ENROLLMENT FOR PLAN YEAR 2014

Active employee Open Enrollment was held from October 1 through October 31. One hundred fourteen (114) Open Enrollment meetings were held for employees in thirty-five (35) cities, and six (6) online Open Enrollment webinars were held. Staff estimates that approximately 6,000 employees attended these meetings.

Approximately 27,674 employees utilized the online Open Enrollment system for State employees to review their health plan coverage. Of those logging into the Open Enrollment system, 27,129 reviewed and saved their health plan elections for Plan Year (PY) 2014. Non State Groups also enrolled online and 4,787 Non State employees made health care elections.

As of November 25, 2013, the State and Non State active employee enrollment was as follows:

Vendor	Plan A	Plan B	Plan C	Waived
Blue Cross and Blue Shield of Kansas	29,601	2,301	6,922	
Coventry Health Care of Kansas	1,485	175	396	
UnitedHealthcare	433	106	219	
Waived Coverage				3,579
Total	31,519	2,582	7,537	3,579

Flexible Spending Accounts (FSAs) require an annual election to participate, and 6,265 State employees elected the traditional medical FSA, 526 Plan C members elected the limited purpose FSA, and 1,183 elected a dependent care FSA.

Enrollment in the voluntary vision plan through Superior Vision for Active and Non State members as of November 25, 2013:

<u>Coverage Level</u>	<u>Enrolled</u>
Basic Plan	9,602
Enhanced Plan	23,607
Waived Vision	12,009
Total Enrolled	33,209

Direct Bill

The Direct Bill open enrollment for retirees was held November 1 through November 30. Enrollment numbers for the Direct Bill program are not available at this time. The Direct Bill call center staff conducted twenty-five (25) Direct Bill open enrollment meetings at twelve (12) locations throughout the state and eight (8) online Direct Bill webinars were held.

NON STATE PUBLIC EMPLOYERS

K.S.A. 75-6506(c) authorizes the Kansas State Employees Health Care Commission to designate by rules and regulations the inclusion of public schools and certain local governmental entities into the SEHP. The following chart shows the enrollment by type of eligible group as of January 1, 2014:

Summary	Number of Groups	Covered Employees
Public Schools	32	3,298
Cities	50	483
Counties	27	2,437
Townships	2	20
Public Hospitals & Community Mental Health Centers	16	1,148
Misc. Local Governmental Entities	42	202
Total	169	7,588

HEALTH PLAN ADMINISTRATION

The SEHP enrollment and membership portal used for the Non State groups and Direct Bill members of the SEHP has increased the efficiency of membership processing with real time transactions. Beginning in PY 2014, the portal will be enhanced to incorporate a billing module that will eliminate the need for the SEHP to contract for a separate third-party billing service for the Non State and Direct Bill populations. The SEHP will be moving the active state employee population to the new enrollment and membership portal by July 1, 2014. This move will enhance the speed and handling of member information. State agency personnel offices will be able to input their health plan changes directly into the system, eliminating the need for completing and submitting paper enrollment and change forms for employees. Agencies will be able to track and report on the status of any submitted changes to the SEHP. The new system is designed to improve the efficiency of the enrollment process.

III. PROGRAM HIGHLIGHT: SEHP HEALTHQUEST PROGRAM

PROGRAM HIGHLIGHTS

The SEHP's HealthQuest (HQ) program goal continues to be improving the health of members and decreasing overall health costs. The HealthQuest wellness program offers members access to a 24-hour-a-day nurse line for health questions. Health coaches and condition management programs are available to provide information and support to help members manage and improve their health. In addition, free biometric health screenings are offered throughout the state. The screenings provide employees with basic biometric information about their health. Employees whose values are outside the normal range are referred to their personal physician for follow-up care. The biometric values can also be used to complete the health assessment questionnaire which provides additional information and feedback to the employee about their health and ways to improve it. At-home test kits are also available to obtain the biometric information for members who are unable to attend a health screening event. Members may participate in a variety of wellness challenges and activities throughout the year. A wellness portal is available at: www.kansashealthquest.com.

Beginning with PY 2013, the non-tobacco discount program was replaced by the HealthQuest (HQ) Rewards premium incentive discount program. The new rewards program includes a health assessment questionnaire and encompasses a wide variety of health awareness and improvement programs. The goal of the program is to engage employees in a discussion about their health and wellness. Improving the health of the plan members will help to reduce the number and severity of claims and will save the plan and employees money in the long run. As with the prior non tobacco use discount program, participation in the new HQ Rewards Program is optional. Employees who elect not to participate in the HQ Rewards Program will still be eligible for coverage under the SEHP but will pay the full employee premium rate. Complete program details are available at: <http://www.kdheks.gov/hcf/healthquest/rewards.html>.

The qualification period to earn the HQ Rewards premium incentive discount for PY 2014 was August 1, 2012, through July 31, 2013. Ten (10) credits had to be earned by completing the online or paper health assessment questionnaire. Employees could then select from a wide variety of online, telephonic and in-person programs to earn additional credits. Those who completed the online health assessment and earned twenty (20) additional credits by July 31, 2012, earned the HQ Rewards premium incentive discount of \$40 per month toward their PY 2013 premium.

For PY 2014, over 70 percent of State and Non State employees participated in the HQ Rewards Program and earned the premium incentive discount. Aon Consulting did an analysis of the HealthQuest program's impact on trend. Analysis indicates that the wellness participants' actual costs are 2 percent lower than non-participants after risk adjustment and suggests the SEHP saved approximately \$2.1M in employee medical costs through the wellness initiatives.

The third year of the HQ Rewards Program began on August 1, 2013, and runs through July 31, 2014. To earn the HQ reward for Plan Year 2015, employees will need to complete the Health Assessment Questionnaire for 10 credits and earn 20 additional credits by July 31, 2014. Credits are tracked on the wellness portal at www.KansasHealthQuest.com.

IV. FINANCING

In 2013, the HCC continued to receive periodic financial reports summarizing plan revenues, expenditures, and both current and projected balances in SEHP funds. This section summarizes the financial status of the SEHP, including a discussion of funding balances, revenue, and expenses.

BEGINNING BALANCE

The beginning balances shown at the top of **Table 1** and **Table 2** indicate the total amounts of cash in the various funds available to the SEHP. Table 1 is the SEHP ten (10) year projection sheet that is reviewed and approved on an annual basis by the HCC. Funds available to the SEHP are referred to as the “**Plan Reserve**,” and the beginning balance of the Plan Reserve represents the funds available at the beginning of each year.

Available monies for plan expenses are managed in two funds. One fund is a dedicated, interest-bearing reserve that totals approximately \$12.0 million called “**Reserve Fund**.” This fund was created by the 1993 contract with Blue Cross and Blue Shield of Kansas to provide a reserve for self-funded claims payments. The fund has continued to exist and grows by interest compounded monthly within the Pooled Money Investment Board. Since PY 2009, the fund has experienced decreasing interest rates. Based on past experience, it is estimated that the interest earned on the Reserve Fund will be one (1) percent over the long-term even though the FY 2013 rate is about .01 percent. The fund balances include the presumption that the plan will begin receiving the earned interest on all the Plan Reserves beginning in 2015. However, an audit finding of the U.S. Department of Health and Human Services has resulted in an order that the State of Kansas pay the federal government for interest income on the SEHP funds that was allocated to the State’s general fund. The first installment payment of \$2,521,955.65 was made from the SEHP fund balance in 2013. As a result, conversations have started to begin transferring interest earned to the SEHP funds prior to 2015.

The second fund, called “**Remittance to Providers**,” on **Table 2** and called “**Beginning Reserve not Earning Interest**” on **Table 1**, represents monies remaining from payroll collections (employees and state agencies), Direct Bill contributions from retirees, COBRA continuers, and Non State public employer contributions after all expenses have been paid.

PLAN REVENUES

Plan revenues are the sums received from contributions by State agencies, Non State public employers, employees, and retirees, plus interest earned by the plan. Past experience with fund balances, revenues, and expenses are represented in a historical chart (**Figure 2**) based upon fiscal years running from July 1 to June 30. Projected balances, revenues, and expenses are based upon plan years running from January 1 to December 31.

The “**Total Contributions**” figure on **Table 1** for PY 2013 is based upon no increases in the contributions of agencies, Non State public employers or employee contributions. The agency and Non State public employer contributions are adjusted on the first of July each year. The employee contributions are adjusted January 1 of each year. The projections shown in **Table 1** incorporate the estimated impacts of contribution rates in effect for PY 2013, as described above.

PLAN EXPENSES

Plan expenses are payments for medical, dental, and drug claims, plus related contract administration fees that are paid by the plan. The historical plan expenses (**Table 2**) represent actual experience, whereas projected plan expenses (**Table 1**) are estimates reflecting a long-term managed health care cost trend. The total annualized cost of the SEHP for PY 2013 is estimated to be approximately \$449,108,000 per Exhibit D. Past experience and future projections for the plan contributions, expenses, ending reserve balances and target reserve are represented in the Projected Reserve Balance (**Figure 3**) that is calculated on the health plan year which is January 1 through December 31.

ADMINISTRATION

Administration is the cost to maintain the program, including employee salaries, consulting fees, and other expenses. It is assumed in the projections that costs will grow 2.7 percent annually. SEHP administrative costs represent less than 1 percent of health plan expenditures.

PLAN RESERVES

The HCC's funding objective in managing the SEHP over the long term is to have a target reserve equal to the actuarially-calculated claims Incurred But Not Reported (IBNR), plus a reasonable contingency to account for unforeseen and unexpected growth in health costs that could arrive before plan revenue can be adjusted. The target reserve will be adjusted for health cost trend over time. **Table 1** shows the projected target reserve for each year based upon a function of Plan Contributions, Plan Expenses, and health care cost trend. The estimated target reserve for health claims in PY 2013 was \$52.6 million (**Table 1**). Target reserves are projected to rise over time based upon health cost trend.

Table 2 and **Figure 2** show SEHP balances, revenues, and expenditures from state Fiscal Year (FY) 2001 through 2013. These reserves reflect actual historical experience as reported in the Statewide Cost Allocation Plan documents for each state fiscal year and the single state financial audit reports for those years. In PY 2009, legislative action resulted in state agencies not contributing the employer contribution for seven pay periods in FY 2009, resulting in a \$64 million decrease in the fund balance. In FY 2010, legislative action reduced the fund by \$9.675 million per S.B. 572.

SUMMARY

In Plan Year 2013, healthcare costs increased less than what was originally projected. Based upon staff projections and the opinion of the SEHP actuaries, the SEHP fund should have sufficient funds to pay the health care expenses for a self-funded plan covering approximately 100,000 lives for 2014.

Table 1
Division of Healthcare Finance
Reserve Calculation
Medical, Pharmacy, Dental and Vision

Plan Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Factors and Assumptions	Actual Factors and Assumptions.....Projected Factors and Assumptions.....											
Interest Rate on Reserves	0.1%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Admin/Contract Fee Trend	1.8%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
Kansas Healthcare cost trend rate	5.0%	6.0%	6.5%	6.5%	7.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Policy Choices	HCC Policy Choices in June 2011	HCC Policy Choices by June 2012	HCC Policy Choices by June 2013	Future Policy Choices.....								
Employer Contr. % incr. (eff. July 1)	7.5%	0.0%	-2.0%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%
Employee Contr. % incr. (eff. Jan 1)	44.0%	0.0%	-2.0%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%
Dependent Contr. % incr. (eff. Jan 1)	-7.4%	0.0%	-2.0%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%
Direct Bill Contr. % incr. (eff Jan 1)	14.7%	0.0%	-2.0%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%	8.9%
Reserves												
Beginning reserve earning interest	12,017,362	12,030,660	12,181,043	12,333,306	152,454,582	126,509,903	105,944,764	89,628,587	78,472,566	73,498,073	75,848,442	86,801,932
Beginning reserve not earning interest	102,929,048	158,309,374	196,487,759	177,473,644	0	0	0	0	0	0	0	0
Beginning Total Reserve Balance	114,946,410	170,340,034	208,668,802	189,806,950	152,454,582	126,509,903	105,944,764	89,628,587	78,472,566	73,498,073	75,848,442	86,801,932
Projected Cash Flow												
Total Employer Contributions	359,671,841	374,645,719	372,730,467	388,348,319	423,978,067	461,774,431	502,940,228	547,775,830	596,608,392	649,794,229	707,721,422	770,812,650
Total Participant Contributions	130,142,982	124,447,306	116,631,185	120,064,244	128,763,247	138,229,046	148,384,657	159,278,641	170,962,765	183,492,193	196,925,675	211,325,757
Total Contributions	489,814,823	499,093,025	489,361,652	508,412,563	552,741,314	600,003,477	651,324,885	707,054,471	767,571,157	833,286,422	904,647,097	982,138,407
Total Plan Expenses (Claims, ASO fees & contracted expenses)	434,434,498	462,062,139	508,375,768	545,919,097	580,591,674	622,149,991	668,965,371	719,330,850	773,526,557	831,854,778	894,641,713	962,239,363
Interest on Reserves	13,298	150,383	152,263	154,166	1,905,682	1,581,374	1,324,310	1,120,357	980,907	918,726	948,106	1,085,024
Net Cash flow	55,393,623	38,328,768	(18,861,853)	(37,352,368)	(25,944,678)	(20,565,140)	(16,316,176)	(11,156,022)	(4,974,493)	2,350,370	10,953,490	20,984,068
Projected Reserve Balance												
Reserve Ending Balance	170,340,033	208,668,802	189,806,949	152,454,582	126,509,904	105,944,763	89,628,588	78,472,565	73,498,073	75,848,443	86,801,932	107,786,000
Target Reserve	59,274,000	52,591,000	56,357,000	59,996,000	64,036,000	68,962,000	74,275,000	80,004,000	86,183,000	92,846,000	100,034,000	107,786,000

Table 2

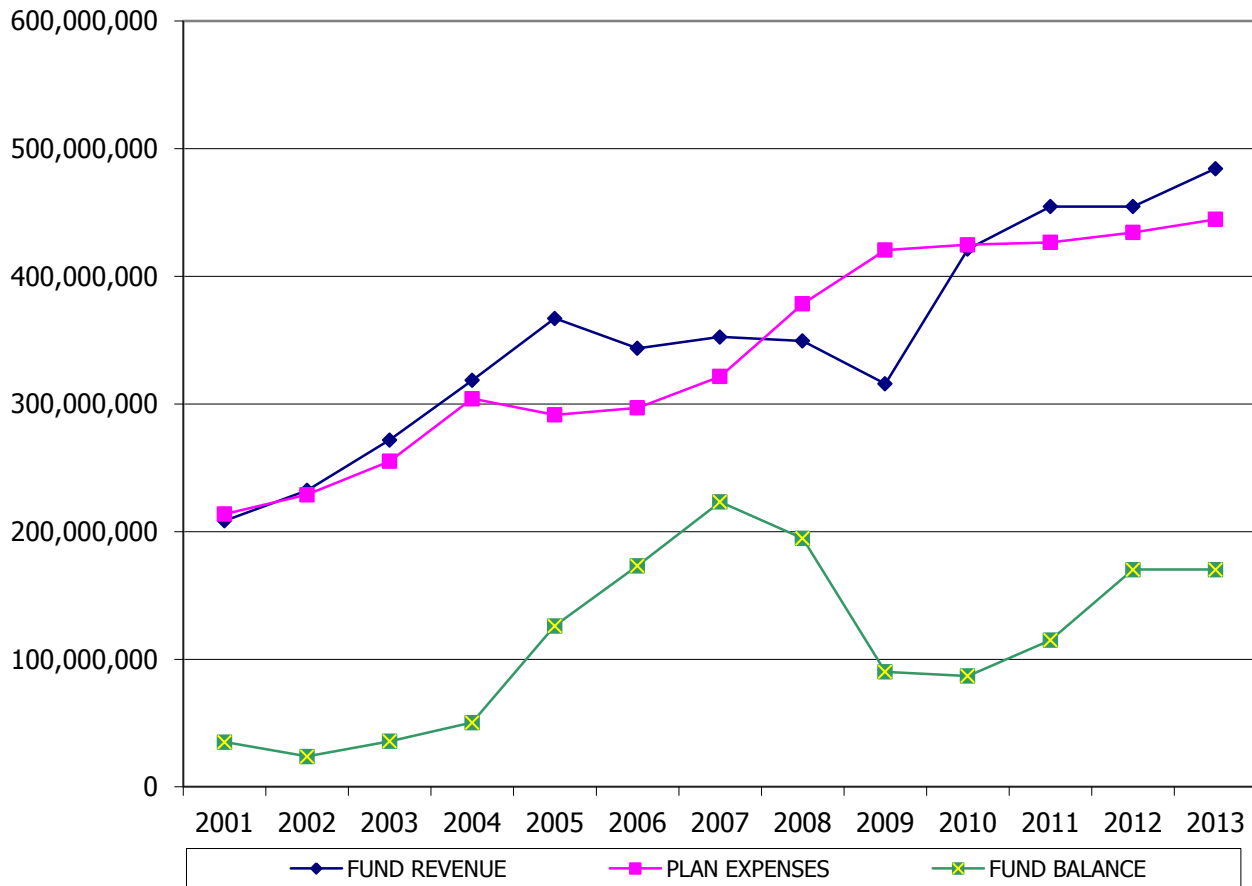
State Employees' Health Benefit Program

Statement of Operations History
Fiscal Years 2003 - 2013

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
BEGIN FUND BALANCES:											
Remittance to Providers	7,746,937.43	23,128,480.93	14,641,720.08	112,917,181.92	159,319,126.65	182,798,342.88	206,746,753.59	123,559,594.80	89,530,945.20	81,888,882.66	131,933,160.19
Non-State	468,737.24	1,016,941.50	11,205,604.15	1,561,927.10	1,941,798.34	1,325,945.14	1,232,899.42	1,083,740.12	943,959.71	798,404.79	662,532.53
Direct Bill & LWOP	1,123,794.15	1,879,341.77	14,697,472.19	1,643,367.63	1,588,837.68	1,286,107.84	1,198,590.40	1,199,601.67	1,183,591.42	0.00	0.00
Reserve Fund	14,559,934.16	9,746,634.49	9,855,594.59	10,052,400.08	10,448,121.75	10,999,553.38	11,487,865.80	11,796,537.98	11,949,079.64	12,013,613.79	12,023,143.95
Flex Spending	2,002,538.20	1,954,762.90	1,950,546.67	2,045,512.26	2,067,016.84	1,864,710.61	1,212,919.45	1,858,226.10	2,522,075.16	3,201,504.75	3,802,352.64
Cafeteria	1,918,549.31	244,446.87	275,447.40	420,236.96	819,005.30	1,416,663.55	2,001,101.62	2,088,949.31	3,018,954.53	4,107,863.47	5,643,695.90
Wellness	1,318,789.69	511,829.03	130,014.49	438,217.08	792,867.47	1,181,870.55	1,616,065.39	1,999,876.28	681,857.71	915,191.10	1,141,168.12
Other/A&R Funds	524,685.13	352,600.40	1,166,281.01	555,296.86	20,977,867.16	22,188,588.23	21,715,568.41	4,763,223.45	0.00	0.00	0.00
	29,663,985.31	38,835,037.89	53,922,680.58	129,634,139.89	197,954,641.19	223,051,782.28	247,211,764.08	147,447,739.71	109,830,363.37	102,925,460.56	155,206,053.33
REVENUES:											
State ER	149,576,275.78	163,216,145.11	198,132,780.22	197,551,159.58	200,451,184.18	204,132,341.36	147,564,647.48	218,025,097.15	246,593,459.84	278,249,396.31	290,389,147.39
State EE	56,695,758.67	67,871,501.70	74,779,075.08	70,217,060.43	63,596,126.23	56,841,777.43	53,917,172.32	58,484,338.72	63,469,299.25	65,938,211.81	63,655,929.05
Non-State	17,738,347.23	38,874,021.23	43,226,460.36	45,971,853.72	45,627,732.53	45,640,872.90	55,466,928.24	65,440,727.53	73,089,921.12	85,696,150.08	85,993,486.80
Direct Bill	39,750,166.85	45,983,137.23	48,014,750.97	47,297,943.03	43,520,083.53	41,773,081.03	43,603,156.39	46,745,348.89	50,510,944.12	46,717,594.90	45,594,284.68
K&A's-424th Reserve	186,700.33	108,960.10	196,805.49	395,721.67	541,431.63	498,312.42	308,672.18	152,541.66	64,534.15	9,530.16	15,718,084.61
Flex	10,957,043.51	12,192,363.91	12,691,092.36	12,720,816.29	13,511,389.36	14,491,861.42	15,477,895.56	16,947,256.81	17,573,802.24	17,457,336.19	3,063,729.22
Cafeteria	168,533.71	2,010,441.28	2,016,099.96	2,010,918.46	2,035,464.31	2,490,005.61	2,179,871.49	3,167,868.12	3,167,405.11	3,164,171.63	775,040.58
Wellness		528,292.29	577,223.64	603,096.20	645,828.02	781,432.97	686,225.79	799,133.34	788,134.57	743,461.40	15,061.49
Other	2,894,921.98	3,515,941.88	2,306,919.27	3,906,469.87	3,138,468.00		1,572.37	68,137.91	-8,711,181.42	-402,603.95	1,558,002.21
	277,967,748.06	334,300,804.73	381,941,207.35	380,675,039.25	373,112,707.79	366,649,690.14	319,476,141.82	409,833,450.13	446,546,018.98	497,573,250.53	506,712,766.23
EXPENSES:											
Claims	254,739,932.53	303,875,532.00	291,260,895.74	296,727,542.20	191,517,575.74	225,416,734.16	360,215,039.15	377,935,935.20	382,304,517.05	380,813,434.04	391,326,172.94
Other	387,754.97	246,016.68	239,621.24	238,450.00	334,685.81	2,101,171.33	7,105,819.56	5,112,843.00	5,327,669.53	4,866,281.01	5,073,880.71
ASO/Premiums					140,752,313.72	97,575,850.57	33,520,301.02	44,660,104.56	46,295,027.21	40,638,493.21	40,738,725.97
Flex	10,059,665.46	11,530,355.71	12,001,962.67	12,028,299.69	12,781,080.66	13,704,255.73	14,893,029.57	16,029,601.12	16,618,731.19	16,509,479.45	14,864,870.98
Admin	3,609,342.52	3,561,257.65	2,727,268.39	2,533,384.43	2,629,910.77	3,691,696.55	3,505,976.89	3,712,342.59	2,994,976.81	2,464,970.08	2,422,160.08
	268,796,695.48	319,213,162.04	306,229,748.04	311,527,676.32	348,015,566.70	342,489,708.34	419,240,166.19	447,450,826.47	453,450,921.79	445,292,657.79	454,425,810.68
END FUND BALANCES:											
Remittance to Providers	23,128,480.93	14,641,720.08	112,917,181.92	159,319,126.65	182,798,342.98	206,746,753.59	123,559,594.80	89,530,945.20	81,888,882.66	131,933,160.19	182,011,936.57
Non-State	1,016,941.50	11,205,604.15	1,561,927.10	1,941,798.34	1,325,945.14	1,232,899.42	1,083,740.12	943,959.71	798,404.79	662,532.53	1,626,614.66
Direct Bill & LWOP	1,879,341.77	14,697,472.19	1,643,367.63	1,588,837.68	1,286,107.84	1,198,590.40	1,199,601.67	1,183,591.42	0.00	0.00	0.00
Reserve Fund	9,746,634.49	9,855,594.59	10,052,400.08	10,448,121.75	10,989,553.38	11,487,865.80	11,796,537.98	11,949,079.64	12,013,613.79	12,023,143.95	12,028,205.44
Flex Spending	1,954,762.90	1,950,546.67	2,045,512.26	2,067,016.84	2,067,016.84	1,864,710.61	1,212,919.45	2,522,075.16	3,201,504.75	3,802,352.64	4,279,051.64
Cafeteria	244,446.87	275,447.40	420,236.96	819,005.30	1,416,663.55	2,001,101.62	1,099,876.28	3,018,954.53	4,107,863.47	5,643,695.90	6,201,863.80
Wellness	511,829.03	130,014.49	438,217.08	792,867.47	1,181,870.55	1,616,065.39	1,999,876.28	681,857.71	915,191.10	1,141,168.12	1,335,336.74
Other/A&R Funds	352,600.40	1,166,281.01	555,296.86	21,884,728.79	22,188,588.23	21,715,568.41	4,763,223.45	0.00			
	38,835,037.89	53,922,680.58	129,634,139.89	198,781,502.82	223,051,782.28	247,211,764.08	147,447,739.71	109,830,363.37	102,925,460.56	155,206,053.33	207,493,008.85

Figure 2

History of State Employee Health Plan



Notes:

1. Legislative action resulted in state agencies not contributing the employer contribution for seven pay periods in FY 2009, resulting in a \$64 million decrease in the fund balance.
2. In FY 2010, legislative action reduced the fund by \$9.675 million per S.B. 572.

Figure 3
Projected Reserve Balance
Annual Contributions, Expenses and Fund Balances

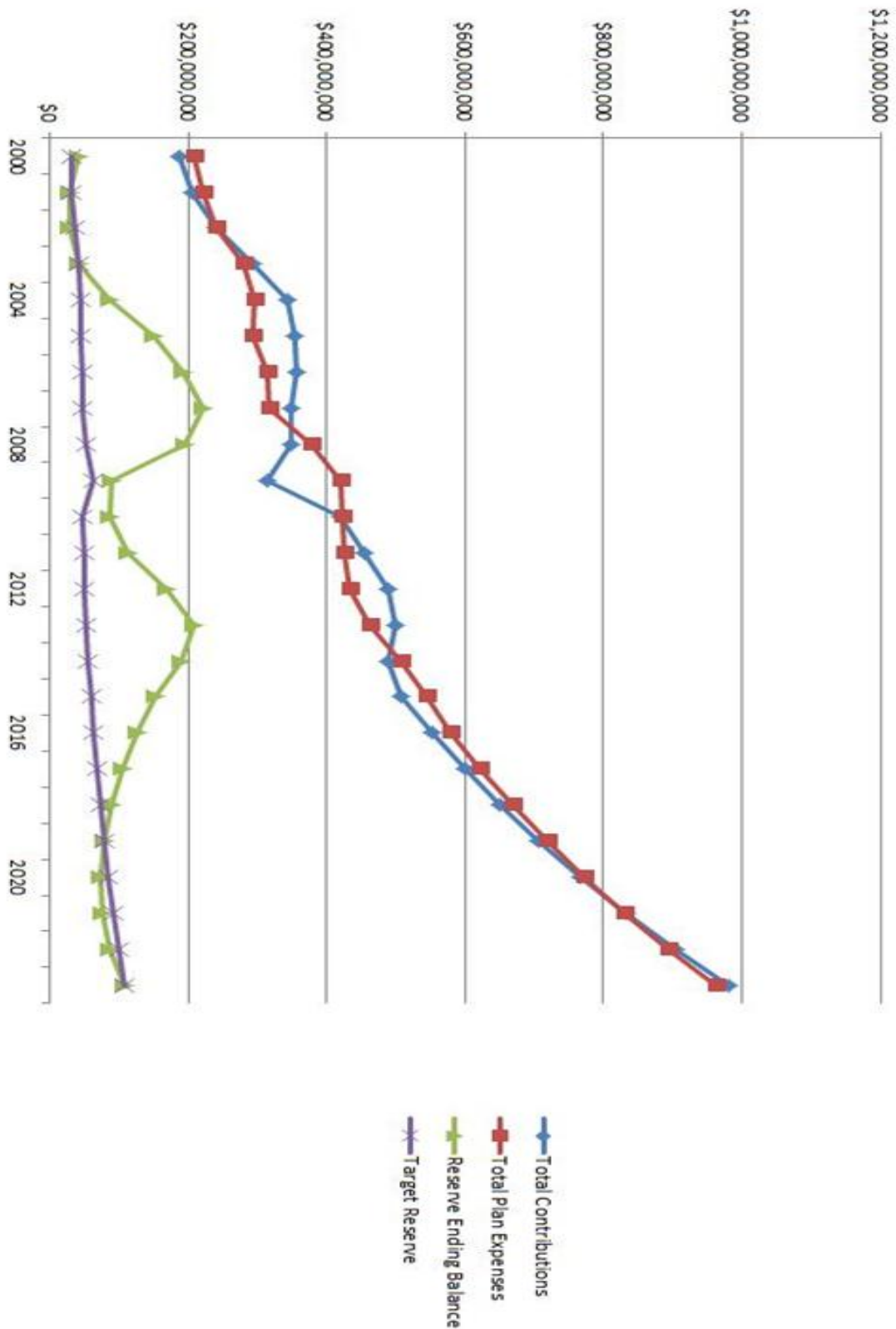


Exhibit A
2013 Employee Advisory Committee

Brant Barber

Court Services Officer
Johnson County Court Services
588 E. Santa Fe, Suite 4000
Olathe, KS 66061
913.715.7460
Fax: 913.715.7420
brant.barber@jocogov.org
Term expires: 12/31/15

Barbara Barto

Scheduling Coordinator
Pittsburg State University
1701 South Broadway
Pittsburg, KS 66762
620.235.4858
Fax: 620.235.4059
bbarto@pittstate.edu
Term expires: 12/31/13

Alexandra Blasi

Attorney
Kansas Department of Commerce
1000 SW Jackson St., Suite 100
Topeka, KS 66612
785.296.7874
Fax: 785.296.5055
ablasi@kansascommerce.com
Term expires: 12/31/15

David Boyle

Retiree Representative
P.O. Box 357
Wilson, KS 67490
785.658.2377
Fax: None
Boyledavid50@yahoo.com
Term expires: 12/31/13

Jenny Braun

Corrections Counselor II
Norton Correctional Facility
PO Box 546
Norton, KS 67654
785.877.6689
Fax: 785.877.6607
JennyB@doc.ks.gov
Term expires: 12/31/14

Cheryl Buxton

Deputy Dir.
Ofc. of Facilities and Procurement Mgmt.
Department of Administration
201 N.W. MacVicar Ave.
Topeka, KS 66606
785.296.7276
Fax: 785.291.3770
Cheryl.Buxton@da.ks.gov
Term expires: 12/31/13

Patty Delmott

Application Developer
Emporia State University
1200 Commercial – CB4018
Emporia, KS 66801
620.341.5684
Fax: 620.341.5662
pdelmott@emporia.edu
Term expires: 12/31/15

Kim Fowler

Fiscal Officer
Judicial Branch
301 SW 10th St., Room 337
Topeka, KS 66612
785.296.2256
Fax: 785.368.6573
fowlerk@kscourts.org
Term expires: 12/31/13

Elizabeth Fultz

Consultant
Department of Education
120 SE 10th Avenue
Topeka, KS 66612
785.296.2325
Fax: 785.296.3523
bfultz@ksde.org
Term expires: 12/31/14

Karen Gutzwiller

Employee Benefits Manager
Dept. of Admin. (located at DCF)
DSOB, 915 Harrison
Topeka, KS 66612
785.296.4768
Fax: 785.296.2173
Karen.Gutzwiller@dcf.ks.gov
Term expires: 12/31/14

Kris Holm

Business Manager
Office of the State Bank Commissioner
700 SW Jackson, Suite 300
Topeka, KS 66603
785.296.2266 ext. 227
Fax: 785.296.0168
Kris.Holm@osbckansas.org
Term expires: 12/31/15

Linda Kelly

Business Manager
Hutchinson Correctional Facility
P.O. Box 1568
Hutchinson, KS 67504
620.728.3307
Fax: 620.728.3475
lindake@doc.ks.gov
Term expires: 12/31/13

Marjorie Knoll

Senior Administrative Assistant
Fort Hays State University
Rarick Hall – 349
600 Park Street
Hays, KS 67601
785.628.5840
Fax: 785.628.4426
mdknoll@fhsu.edu
Term expires: 12/31/14

Sheryl McKelvey

Public Service Administrator I
Wichita State University
1845 Fairmount
209 Ahlberg Hall
Wichita, KS 67260
316.978.3620
Fax: 316.978.3517
Sheryl.mckelvey@wichita.edu
Term expires: 12/31/15

John Oswald

Public Service Administrator II
Kansas Department of Revenue
Finney State Office Building
230 E. William – Suite 7150
Wichita, KS 67202
316.337.6148
Fax: 316.337.6162
John.oswald@kdor.state.ks.us
Term expires: 12/31/13

Gregory M. Piper

Staff Development Coordinator
Ellsworth Correctional Facility
1607 State
Ellsworth, KS 67439
785.472.6270 Direct
785.472.5501 ext. 46270
Fax: None
gregorypi@doc.ks.gov
Term expires: 12/31/13

Kristy Rizek

Pavement Management Information Engineer
KDOT
MRC, 2300 SW Van Buren
Topeka, KS 66611
785.291.3867
Fax: 785.296.2526
kristyr@ksdot.org
Term expires: 12/31/15

Jackie Scott

Retiree Representative
1501 West St.
Emporia, KS 66801
620.342.9287
Fax: None
jsscott08@gmail.com
Term expires: 12/31/14

Jan O. Sides

Retiree Representative
812 SE Oakridge Lane
Topeka, KS 66609
785.266.5507
Cell: 785.221.0399
Fax: None
insides22@cox.net
Term expires: 12/31/13

Steve Stankiewicz

Public Service Exec III
Kansas Department of Agriculture
109 SW 9th St
Topeka, KS 66612
785.296.0026
Fax: None
steve.stankiewicz@kda.ks.gov
Term expires: 12/31/14

Exhibit B
STATE OF KANSAS QUARTERLY REPORT
2013 GROUP HEALTH INSURANCE ENROLLMENT
MEDICAL PARTICIPANT BY QUARTER

Grand Total Covered Lives (State & Non State Active, Direct Bill & COBRA)							
Type of Participant			Jan-13	Apr-13	Jul-13	Oct-13	Average
STATE OF KANSAS	Active	Employees	34,947	34,914	34,357	34,540	34,690
		Dependents	37,208	37,376	37,063	37,032	37,170
		Total Covered Lives	72,155	72,290	71,420	71,572	71,859
	Direct Bill	Participants	11,071	11,044	11,092	11,111	11,080
		Dependents	536	514	500	471	505
		Total Covered Lives	11,607	11,558	11,592	11,582	11,585
	COBRA	Participants	117	111	118	132	120
		Dependents	44	36	53	93	57
		Total Covered Lives	161	147	171	225	176
NON STATE USD	Active	Employees	2,909	2,905	2,885	2,872	2,893
		Dependents	3,264	2,934	2,938	2,911	3,012
		Total Covered Lives	6,173	5,839	5,823	5,783	5,905
	Direct Bill	Participants	395	385	380	415	394
		Dependents	47	43	43	51	46
		Total Covered Lives	442	428	423	466	440
	COBRA	Participants	9	6	6	14	9
		Dependents	6	2	2	12	6
		Total Covered Lives	15	8	8	26	14
NON STATE CITY/COUNTY/TOWNSHIP	Active	Employees	2,970	2,923	2,933	2,916	2,936
		Dependents	4,405	3,782	3,812	3,793	3,948
		Total Covered Lives	7,375	6,705	6,745	6,709	6,884
	Direct Bill	Participants	112	118	119	121	118
		Dependents	13	11	14	11	12
		Total Covered Lives	125	129	133	132	130
	COBRA	Participants	12	10	11	11	11
		Dependents	3	7	7	3	5
		Total Covered Lives	15	17	18	14	16

Exhibit B

**STATE OF KANSAS QUARTERLY REPORT
2013 GROUP HEALTH INSURANCE ENROLLMENT
MEDICAL PARTICIPANT BY QUARTER**

Grand Total Covered Lives (State & Non State Active, Direct Bill & COBRA)							
Type of Participant			Jan-13	Apr-13	Jul-13	Oct-13	Average
NON STATE HOSPITAL / MENTAL HEALTH CENTER	Active	Employees	1,013	979	982	1,089	1,016
		Dependents	1,073	928	934	1,044	995
		Total Covered Lives	2,086	1,907	1,916	2,133	2,011
	Direct Bill	Participants	11	12	13	15	13
		Dependents	1	1	1	4	2
		Total Covered Lives	12	13	14	19	15
	COBRA	Participants	9	9	7	8	8
		Dependents	2	2	1	1	2
		Total Covered Lives	11	11	8	9	10

NON STATE ALL OTHER (MISC)	Active	Employees	172	169	166	170	169
		Dependents	194	158	150	159	165
		Total Covered Lives	366	327	316	329	335
	Direct Bill	Participants	5	5	11	11	8
		Dependents	1	1	1	1	1
		Total Covered Lives	6	6	12	12	9
	COBRA	Participants	0	1	2	2	1
		Dependents	0	3	6	6	4
		Total Covered Lives	0	4	8	8	5

TOTALS FOR ALL GROUPS	Active	Employees/Participants	42,011	41,890	41,323	41,587	41,703
		Dependents	46,144	45,178	44,897	44,939	45,290
		Total Covered Lives	88,155	87,068	86,220	86,526	86,992
	Direct Bill	Employees/Participants	11,594	11,564	11,615	11,673	11,612
		Dependents	598	570	559	538	566
		Total Covered Lives	12,192	12,134	12,174	12,211	12,178
	COBRA	Employees/Participants	147	137	144	167	149
		Dependents	55	50	69	115	72
		Total Covered Lives	202	187	213	282	221

TOTAL CONTRACTS	53,752	53,591	53,082	53,427	53,463
TOTAL COVERED LIVES	100,549	99,389	98,607	99,019	99,391

Exhibit C
2013 Non State Entities Enrollment

Effective Date	Dept. Name	Type
1/1/2013	EduKan: Western KS Comm. College Virtual Ed. Consortium	Education
6/1/2013	City of Whitewater	City
10/1/2013	Girard Medical Center	Hospital

Exhibit D

Kansas State Employees Health Care Commission Plan Year 2013 Estimated Annualized Costs (Unaudited)

	<u>Estimate</u> <u>2013 Costs</u> <u>Annualized</u>
1. 2013 Projected Total Cost¹	\$ 462,062,139
2. 2013 Estimated Total Cost²	
a. Blue Cross/Blue Shield	\$ 293,655,000
b. Coventry	\$ 16,899,000
c. UHC	\$ 6,784,000
d. Kansas Senior Plan C	\$ 16,483,000
e. Coventry Advantra PPO	\$ 1,239,000
f. Delta Dental	\$ 28,211,000
g. Caremark/SilverScript Rx Claims	\$ 75,798,000
h. Superior Vision Premiums	\$ 5,471,000
i. Contract Fees	\$ 4,568,000
TOTAL	\$ 449,108,000
3. 2013 State and Non State Employee, COBRA, Direct Bill Contributions²	\$ 125,592,000
4. 2013 State of Kansas and Non State Employer Contributions¹	
a. Projected	\$ 374,645,719
b. Actual	\$ 360,167,000
c. Percent Difference	3.86%

¹ 2013 Projected Totals come from the 10-year projection sheet presented and approved at the June 13, 2013, Health Care Commission Meeting.

² These values were developed by annualizing data received through November 2013. Intra-year trend, deductible leveraging, and migration were not considered. Data has not been audited further.